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ILLINOIS IOWA POWER COMPANY

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1937
ANNUAL REPORT
TO
STOCKHOLDERS

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This report and the financial statements contained herein are submitted for the general information of the stockholders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of securities.

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ILLINOIS IOWA POWER COMPANY

(Name changed from Illinois Power and Light Corporation on May 1, 1937)

DIRECTORS

H. L. Hanley, Chairman
E. S. Hight
H. E. Johnson
J. E. Johnson
C. A. Leland
J. D. Mortimer
A. P. Titus
Allen Van Wyck

OFFICERS

J. D. Mortimer ..... *President*
J. E. Johnson ..... *Vice President*
Allen Van Wyck ..... *Vice President*
H. L. Hanley ..... *Vice President*
E. S. Hight ..... *Assistant Vice President*
Q. P. Dorschel ..... *Secretary*
H. E. Johnson ..... *Treasurer*
F. G. Sutherland ..... *Comptroller and Assistant Secretary*
K. F. Bader ..... *Assistant Treasurer*
H. A. Hansen ..... *Assistant Secretary*
J. G. Johansen ..... *Assistant Secretary and Assistant Treasurer*

TRANSFER AGENT—All Classes of Stock and Dividend Arrears Certificates

E. E. Smith ..... 417 Missouri Avenue, East St. Louis, Illinois

REGISTRAR—All Classes of Stock and Dividend Arrears Certificates

Illinois State Trust Company ..... East St. Louis, Illinois

PRINCIPAL OFFICE

MONTICELLO, ILLINOIS

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ILLINOIS IOWA POWER COMPANY

Monticello, Illinois
March 16, 1938

To the Stockholders of
Illinois Iowa Power Company:

The financial statements of Illinois Iowa Power Company presented in this report for the fiscal year 1937 differ in form from those presented in reports for prior years:

(a) In this report, earnings, expenses, and assets and liabilities of the Company and its operating utility subsidiaries have been consolidated; separate corporate statements of Illinois Terminal Railroad Company and Central Terminal Company are here given.

(b) In reports for years prior to 1937, the consolidated statements incorporated the financial data of the companies for which separate statements are now presented.

Comparative statements of earnings and expenses for the years 1937 and 1936 are included. Your attention is directed to these statements in this report and the accompanying reports of the auditors.

Consolidated Revenues and Expenses of Company and Utility Subsidiaries

Electric revenues increased 7.3% over those for 1936 with greater consumption and lower average unit price. Gas revenues also increased but in small amount; revenues from sale of manufactured gas were less and revenues from mixed gas and natural gas were more than in 1936. Revenues from Heating, Ice and Water services were lower because weather conditions in 1937 were not conducive to the relatively high rates of consumption of these services resulting from the conditions which obtained in 1936. Street Railway and Bus Revenues declined from those in 1936 principally because of the abandonment or sale in 1936 of most of the street railway and bus facilities owned by the Company; the revenues of the systems remaining declined below the level obtaining in the latter part of 1936 due to causes arising out of lower industrial and commercial activities in Peoria (Ill.). As of the end of September, Illinois Terminal Railroad Company acquired from the Company ownership of the bridge across the Mississippi River and ceased paying rent therefor.

The principal factor in the reduction in Operating Expenses was the abandonment or sale in 1936 of most of the street railway and bus facilities owned by the Company. Cost of electric power produced and purchased increased because of greater energy sales. Maintenance expenses in 1937 on property operated in that year were relatively higher than similar expenses for the year 1936. The increases in taxes were due principally to State and Federal taxes on increased electric revenues, increase in Unemployment Insurance payroll tax and Old Age Benefit tax.

Net Operating Revenues increased 5.2%. The non-receipt by the Company of dividends on Capital Stock of Super-Power Company of Illinois, following its sale in 1936, is principally responsible for the reduction in Non-Operating Revenues.

Net Income for 1937 was $2,476,814 compared with $1,982,377 in the previous year, an increase of $494,437 or 25%. With the decline that began last autumn in industrial and commercial activities in most of the cities and towns served, continuing so far into the year 1938, there is no reasonable expectation that Net Income for the current year will equal that for 1937.

Business records lib

Revenues and Expenses of Illinois Terminal Railroad Company

Revenues in 1937 were 3.3% greater than in 1936. The resulting effect of larger operating expenses and maintenance, slightly lower taxes in the aggregate and larger Net Rents is to absorb all the increase in revenues and reduce Gross Income from $1,356,352 in 1936 to $1,256,275 in 1937, a decrease of $100,077 or 7.4%.

Railroad Operating Revenues declined rapidly in the late months of 1937 and the decline has continued through the early months of 1938. Possible reductions in Operating Expenses have been small compared with the reduction in Revenues.

Revenues and Expenses of Central Terminal Company

Operating Revenues increased 15.5%, the increase arising principally in Warehousing Operations in which increased storage of newsprint paper was an important item. The entire Gross Income of $149,488 was paid out in interest charges, $92,638 of that amount going to Illinois Iowa Power Company as interest on advances.

Consolidated Balance Sheet of Company and Utility Subsidiaries

In the Assets, Property and Plant is shown at $123,504,132, representing the carrying value of the utility plants of the Company and its utility subsidiaries, Des Moines Electric Light Company, Iowa Power and Light Company and Des Moines Gas Company. The investments in Illinois Terminal Railroad Company and Central Terminal Company are separately shown as Investments in Subsidiaries not Consolidated. Cash on deposit with Trustees of $3,261,869 is available for the use of the Companies only under the restrictions contained in the indentures. Cash on hand and in banks of $4,139,902 is part of the working capital of the Companies.

On the Liabilities side of the balance sheet the outstanding 483,500 shares of 5% Cumulative Convertible Preferred Stock, $50 par value, is shown at $24,175,000, and outstanding Common Stock of 783,805 shares, without par value, is shown at $19,595,125. Paid-In Surplus of $13,566,873 consists of $11,596,680 reserved for Dividend Arrears Certificates, $483,195 reserved for conversion of Dividend Arrears Certificates, and $1,486,998 unappropriated. These items arose as a result of the action taken by the stockholders at the Special Meeting held on April 30, 1937, at which meeting, among other actions taken, the Articles of Incorporation of the Company were amended and the Plan of Recapitalization, described in the Letter Transmitting the Plan of Recapitalization dated March 29, 1937, was adopted.

Funded Debt of the Company was reduced during the year in amount of $63,000. Funded Debt of utility subsidiaries was reduced in the aggregate $3,222,000. On May 1, 1937, $3,203,000 principal amount of First Mortgage Bonds of Des Moines Electric Company due November 1, 1938, were redeemed; cash required therefor was advanced by this Company. During the year, $19,000 principal amount of First Mortgage Bonds of Des Moines Gas Company were redeemed.

Balance Sheet of Illinois Terminal Railroad Company

The Statement of Assets and Liabilities follows the system of accounts prescribed by the Interstate Commerce Commission. With the approval of the Interstate Commerce Commission and Illinois Commerce Commission, Illinois Terminal Railroad Company, Alton & Eastern Railroad Company, Illinois Traction, Inc., St. Louis and Illinois Belt Railway, and The St. Louis, Troy and Eastern Rail Road Company were consolidated, and the property of St. Louis Electric Terminal Railway Company and the McKinley Bridge across the Mississippi River between Venice, (Ill.) and St. Louis, (Mo.) were acquired by the consolidated company. All the shares of capital stocks of the corporations going into this consolidation and the McKinley Bridge were owned by Illinois Iowa Power Company and were subject to the lien of its First and Refunding Mortgage. All the capital stock and all of the bonds issued by the consolidated company are owned by Illinois Iowa Power Company and are subject to the lien of its First and Refunding Mortgage.

Of the Funded Debt of $15,000,000, $3,653,000 is owned by others than Illinois Iowa Power Company; this latter figure is $618,000 less than at the end of the year 1936.

Balance Sheet of Central Terminal Company

All of the $1,000,000 outstanding Capital Stock is owned by Illinois Iowa Power Company; the indebtedness owing to that Company at the end of the year was $4,648,064, the amount having been reduced from $6,466,545 at the beginning of the year by cancellation of $1,818,481 of such indebtedness for the purpose of eliminating the deficit in Surplus Account in that amount existing at December 31, 1936. Funded Debt was reduced $75,000 during the year.

Plan of Recapitalization

At the Special Meeting of Stockholders of the Company held on April 30, 1937, the Plan of Recapitalization described in the Letter and Notice of March 29, 1937 and amendments of the Articles of Incorporation giving effect to the Plan were adopted by the stockholders. The amendments, which were filed with the Illinois Secretary of State on May 1, 1937 and became effective on that date, provided that each share of old 6% and $6 Cumulative Preferred Stock was converted into—

(a) One share of new 5% Cumulative Convertible Preferred Stock of the par value of $50, redeemable at any time at the option of the Company at $52.50 per share and accrued dividends and convertible at any time prior to redemption, at the option of the holder, into two shares of new Common Stock without par value; and

(b) One share of new Common Stock without par value ($25 stated value).

In addition, there was issued in respect of each share of old Preferred Stock—

(c) A Dividend Arrears Certificate, transferable on the books of the Company, entitling the holder to receive, from time to time, when and as installments are declared payable by the Board of Directors, the full amount of all dividends in arrears on such share of Preferred Stock, from May 1, 1933, viz.: $24 per share, before any dividends shall be paid or other distribution made on the new Common Stock, and convertible at any time prior to payment in full or on December 31, 1940, whichever is earlier, at the option of the holder, into new Common Stock at the rate of one share of Common Stock for each $24 of unpaid balance of such dividends.

The holders of 6% Cumulative Preferred Stock received in cash $.50 per share of such stock, in addition to the shares of stock and certificates.

Each two shares of old Common Stock of no par value ($100 aggregate stated value) was reclassified into one share of new Common Stock without par value ($25 stated value) and one Warrant, transferable on the books of the Company, entitling the holder to purchase at any time after May 1, 1938 and on or before May 1, 1948 one share of new Common Stock for $30 in cash.

As a result of the action taken by the stockholders, the outstanding stock capitalization became the following:

5% Cumulative Convertible Preferred Stock, $50 par value, entitled to dividends cumulative from May 1, 1937 and convertible into two shares of Common Stock	483,500 shares	$24,175,000 par value
Common Stock, stated value $25 per share	783,500 shares	19,587,500
Dividend Arrears Certificates convertible into Common Stock at $24 per share—face value		11,604,000
There were also created:		
Reserve for Conversion of Dividend Arrears Certificates		483,500
Paid-In Surplus after providing for Dividend Arrears Certificates, payment of $.50 per share to holders of old 6% Cumulative Preferred Stock, and eliminating the deficit (consolidated) as of April 30, 1937		16,609,680.89

The Paid-In Surplus of $16,609,680.89 was reduced to $1,609,680.89 by the transfer of $15,000,000 to Special Property and Investment Reserve.

Later during the year the new Cumulative Convertible Preferred Stock, Common Stock and Dividend Arrears Certificates were listed on the New York Curb Exchange; and for purchases and sales through the facilities of such Exchange, the old $6 Preferred and 6% Preferred Stocks ceased to be good delivery. Up to the date of this report, certificates for 87% of the shares of both classes of old preferred stocks have been sent in by stockholders for issue of certificates for the new securities into which such preferred stocks have been converted.

At the Special Meeting on April 30, 1937, the stockholders also voted to change the name of the Company from Illinois Power and Light Corporation to Illinois Iowa Power Company, consented to the execution and delivery of a new mortgage upon all the property, assets and franchises of the Company to secure bonds of the Company to be issued from time to time and authorized the Board of Directors to issue and sell bonds to be secured by such mortgage.

Litigation Relating to Plan of Recapitalization

On or about May 18, 1937 certain holders of the old Preferred Stock of the Company filed a complaint against the Company in the Circuit Court at Champaign County, Illinois, seeking to enjoin the Company from carrying out the Plan of Recapitalization described in the letter dated March 29, 1937 and from paying dividends to common stockholders or assenting preferred stockholders without first redeeming shares of the Preferred Stock held by the plaintiffs and requesting an order requiring the Company to redeem the shares of Preferred Stock held by the plaintiffs at $110 per share plus accumulated non-paid dividends. The Company's answer to the complaint and the plaintiffs' reply thereto have been filed, but the case has not yet been set down for trial. It is expected that the trial will be had sometime during the current year.

Refunding of Debt

From the Letter to Stockholders dated March 29, 1937 the following is quoted:

> "However, the mere elimination of the deficit and the provision of the additional reserve, through a reduction of capital, would not of itself be sufficient to permit the payment of any dividends on the preferred stocks. The Company's mortgage indenture and debenture indenture both contain provisions prohibiting the payment of dividends except out of earned surplus accumulated since 1922. Since a deficit in such earned surplus now exists and cannot be eliminated by reduction of capital, dividends cannot be paid until after such deficit is made good out of future earnings, unless the outstanding bonds and debentures are refunded and the present indentures cancelled.
>
> "Aside from the legal obstacles there are several business problems which prevent the payment of dividends. These include the necessity for providing funds for the payment of more than $8,500,000 of funded debt, principally of subsidiaries, which matures within the next four years and for the construction by the Company and its subsidiaries of more than $10,000,000 of electric property additions which are necessary in the near future in order to provide for the growing demand for electric service. Until a stock recapitalization plan has been consummated and the existing debt refunded, all available earnings of the Company for a considerable period must be applied to these purposes and cannot be applied to the payment of dividends.
>
> "The existing indenture restrictions on the payment of dividends can be removed and the necessary funds for the payment of maturing debt and for construction can be provided by a refunding of the present debt of the Company and its subsidiaries."

The security market for bonds during the time that has elapsed since May 1, 1937 has not been of a nature that all or any significant proportion of the outstanding Funded Debt of the Company and its subsidiaries could be refunded. In this respect the Company is still faced with problems of meeting maturing debt in the next three years and providing for property additions.

The two principal outstanding issues of bonds maturing within three years for which the Company is required to provide funds are:

Bloomington, Decatur and Champaign Railroad First and Refunding Mortgage 5% Bonds due November 1, 1940—principal amount	$ 809,000
St. Louis, Springfield and Peoria Railroad First and Refunding Mortgage 5% Bonds due December 1, 1939—principal amount	2,844,000

During the year, Funded Debt of the Company and subsidiary companies in the aggregate amount of $3,978,000 was retired.

New Classification of Accounts

The Company has in hand the adaptation of its Property Accounts to those required by a New Uniform System of Accounts prescribed by the Illinois Commerce Commission, effective as of January 1, 1938. This new system requires, among other things, that Utility Plant be recorded at the original cost incurred by the person who first devoted the property to public utility service; and that as far as is practicable from records or estimates or both, so called intangible carrying values arising from the purchase of any utility plant as an operating unit shall be separately shown. Intangible and other carrying values may be subject to write-off against surplus, or amortization through earnings, or both, as may be approved by the Commission. The effect of this New Uniform System of Accounts and the application of accounting procedure contemplated thereby on the financial statements of the Company cannot be forecast.

Property Additions and Retirements

The Company and utility subsidiaries during the year 1937 made Gross Property Additions of $4,175,343 and Retirements of $8,628,707. Included in the latter item is $4,170,126 as the carrying value of the McKinley Bridge, formerly under lease to Illinois Terminal Railroad Company, which was sold to that company for $2,700,000. The difference between the price received and carrying value was charged to "Special Property and Investment Reserve."

Illinois Terminal Railroad Company or its predecessor companies during the year 1937 made Gross Property Additions of $3,798,032; included in this amount is $2,700,000 as the purchase price of the McKinley Bridge. Property Retirements amounted to $2,566,866, of which $1,772,742 is write-down from the amount at which the property of the St. Louis Electric Terminal Railway Company was carried in the latter's accounts prior to its transfer to the Illinois Terminal Railroad Company.

Central Terminal Company during the year 1937 made Gross Property Additions of $17,411; there were no Retirements.

Business Development

The Sales Organizations of the Company and its utility subsidiaries during the year maintained their efforts in promoting the sale of electric and gas appliances in the home, store and factory. The general levels of electric service price schedules for residential, commercial and small power services have continued downward as business density increased. It is improbable that the volume of sales could have been attained if the price schedules had not been lowered. Cooking by electric ranges is economical; heating water for domestic use by electric water heaters is both economical and convenient.

House heating by Mixed and Natural gas makes relatively slow progress; the areas within which these services are available are relatively close to producing coal mines and the cleanliness and convenience of gas are not appraised by the majority of prospective customers as sufficient to offset the difference in dollar cost.

In many of the cities in which electric service is furnished, the Company or a subsidiary also supplies gas service. In the field of residential cooking and hot water heating, the two services are highly competitive. Here there is a tendency for the electric range to replace the gas range, to the ultimate disadvantage of the gas utility.

The Company and its electric utility subsidiaries have made extensions into rural areas in relatively large amounts. While these utilities, in some places, come in contact with Federal Government financed cooperatives, there has been no occupation by the latter of territory which our utilities thought it desirable to serve. The areas lying between transmission lines or cities or towns having distribution systems are so large in the aggregate and the possible business density so low, that electric service can be brought to portions of such areas, if desirable at all, only by a subsidized institution having access to the taxing power of the government.

Power Supply

Illinois Iowa Power Company was incorporated as Illinois Power and Light Corporation under the laws of the State of Illinois on May 25, 1923 by consolidation of a number of public utility corporations operating in the State of Illinois. At the date of consolidation it also acquired directly the properties of several other utility corporations operating in the State of Illinois and at the same time acquired stock interests representing control of a number of public utility and railroad corporations operating in Illinois, Iowa, Missouri and Kansas. During the

ensuing years the properties of a portion of such subsidiaries were acquired directly by the Company, the capital stocks of public utility subsidiaries operating in Missouri and Kansas were sold, and the properties of a number of public utility corporations operating in Illinois and the capital stocks of public utility corporations operating in Iowa and of railroad and terminal corporations operating in Illinois and Missouri were acquired. Certain of the subsidiaries also acquired properties from other corporations.

During several of the first ten years of the Company's existence, urban and interurban transportation and freight facilities loomed large in the business of the Company and its subsidiaries. Much emphasis was then placed on the development of the transportation business. These years witnessed the continued growth of automobile ownership in all cities and towns served; and at the same time the patronage of rail cars declined.

With the exception of several cities in southern Illinois the electric utility business of the Company was mostly done in cities in which the Company also operated transportation facilities. Plants for the generation of electric power were primarily adapted to the supply of power for the street and interurban railways; in some cases, of which Danville, Champaign, Urbana, Decatur and Bloomington are examples, steam heating systems were also operated with local electric generating stations as the source of supply of steam for such systems. With an electric power generating system so arranged, the opportunities for attaining economy in fuel and other operating costs and economical expansion of facilities to care for the growing load were relatively few.

Early in its history, the Company entered into a contract for the purchase of a block of power from Mississippi River Power Company; this power is in the form of 25 cycle current and requires transformation, with accompanying energy losses, into 60 cycle current in order to be usable for the distribution systems in Monmouth, Galesburg, Knoxville, Abingdon, Galva, etc. This contract is still in effect.

The Company succeeded to a lease on water rights at Marseilles on the Illinois River and owns and operates a water power plant at this location. It also purchases the output of a plant on the Fox River near Dayton, a few miles northeast of Ottawa. While these hydro-electric plants have installed capacities which in the aggregate are considerably larger, they can be relied on most of the time for a minimum of about 2,500 kilowatts.

The Company has contracts with the Central Illinois Public Service Company for delivery of power by the latter to the Company at Jacksonville and points in southern Illinois.

In 1927 the Company sold the Venice power station to Union Electric Light and Power Company of Illinois and entered into a twenty-year contract for the purchase of a minimum of 45,000 kilowatts from that company, which a few years earlier had constructed a new power station on the east bank of the Mississippi River at Cahokia, south of East St. Louis. Through this contract, the Company shared in the capacity of a large station generating the major portion of the electric energy requirements of the St. Louis metropolitan area. Effective July 1, 1937 the terms of this contract were revised so that the price for energy taken by this Company was reduced about $200,000 per year, referred to the fuel prices, wage levels and taxes then obtaining. The power furnished under this contract and that purchased from Central Illinois Public Service Company supplies the Company's entire present requirements for electric energy in the southern part of Illinois, except for those generated in a plant at Cairo unconnected with the transmission system supplied from Cahokia power station.

In 1928 the Company purchased 25% and other utility corporations purchased the remaining 75% of Capital Stock of the Super-Power Company of Illinois, which was then planning to construct a large power station on land adjoining the Illinois River near Pekin. The Company contracted to purchase from Super-Power Company 37,000 kilowatts of power at a price intended to be equal to the cost to that Company of producing the electrical energy plus an annual percentage on the Super-Power Company's investment in the facilities used in furnishing such power. This power contract was modified, effective August 1, 1935, and the Company sold a portion of its holdings of Capital Stock of Super-Power Company of Illinois to Commonwealth Edison Company and gave that company an option on the balance. This option was exercised in the year 1936. The power contract expires on July 31, 1940, with an option to the Company to renew the contract for one or two succeeding five-year periods.

The demand in the group of cities and towns in central Illinois consisting principally of Danville, Champaign, Urbana, Decatur, Bloomington and Clinton has grown at a more rapid rate than has the demand in the group of cities and towns served by the transmission system in the southern part of Illinois procuring its electric power supply under the Cahokia contract. The central Illinois transmission system derives most of its power supply under the contract with Super-Power Company; the Danville power station, and to a lesser extent Bloomington and Champaign power stations, supply the balance of the requirements. During the last two years the maximum system demands have occurred during the summer months when there were no requirements for steam for heating purposes.

The requirements of the group of cities and towns in north central Illinois consisting principally of Galesburg, Monmouth, La Salle and Ottawa and the requirements of the Kewanee Public Service Company are supplied in part from transformed power purchased from Mississippi River Power Company, in part from the hydro-electric plants at Marseilles and Dayton and steam station at Galesburg, and in part from the block of power purchased from Super-Power Company.

This Company, during the last few years, has been undergoing significant changes in the nature of its principal businesses. It has disposed of its interest in the transportation business in relatively large measure, by sale in some, and by abandonment in other cases. It has increased its electric service business in significant amounts while promoting the sale of Manufactured, Mixed and Natural Gas wherever opportunities permitted.

To justify the continuation of efforts to increase further the sales of electric service, the Company must be prepared to supply the demand imposed thereby as the need arises. Additional electric generating facilities are required to carry that portion of the load now being carried by several of the comparatively inefficient small plants, to provide for expected growth of load in the future and to reduce the amount of energy the Company is required to purchase. Transmission lines and substations to make such power available in the principal communities in which power is distributed in central Illinois are required before power from the new source is made available in north central Illinois.

The money requirements for the additional facilities just generally described are considerable and were referred to in the March 29, 1937 Letter to Stockholders. The rate at which such facilities are completed will depend on the Company's cash available for such purposes and the extent to which money in addition thereto can be procured by the sale of securities.

The acquisition of these important contributions to the upbuilding of the Company's electric service business and plant is essential to the maintenance of the Company in position to serve adequately the public in the most economical manner, and must take precedence over any cash distribution of Net Income.

Iowa Power and Light Company is constructing an addition of 35,000 kilowatts of steam electric generating capacity at its station outside Des Moines. When this addition is completed later during the year, the station will have a rated capacity of 85,000 kilowatts.

Municipal Competition

The City of Bloomington, (Ill.), having a 1930 population of 30,930, has operated an electric generating plant and distributing system for several years, supplying electric service for the city's requirements in the lighting of city buildings and streets and electric power for water pumping and serving private customers in a limited area of the city.

In 1933 the City of O'Fallon, (Ill.), having a 1930 population of 2,373, by vote of electorate took action to avail itself of PWA funds in the form of a loan and grant and to construct and operate a municipally owned electric generating plant and distributing system. The plant and system have not as yet been constructed.

In 1934 the City of Centralia, (Ill.), having a 1930 population of 12,503, by vote of electorate took action to avail itself of PWA funds in the form of a loan and grant and to construct and operate a municipally owned electric generating plant and distributing system. The Company filed suit in the District Court of the United States for the Eastern District of Illinois against the City of Centralia, its officials and the Federal Emergency Administrator of Public Works, to enjoin financing for construction of a municipal electric generating and distributing system and to enjoin any loan or grant by the Administrator for such purpose, and to set aside the contract between the Administrator and the City providing therefor. A permanent injunction was entered in August, 1935, from which an appeal was taken to the United States Circuit Court of Appeals for the Seventh Circuit. A new contract for the same purpose was executed thereafter by the City and the Administrator, and on April 8, 1937, the Circuit Court of Appeals remanded the case to the District Court with directions that the injunction be vacated and the parties be directed to amend their pleadings and that the case be retried upon the issues then raised. The retrial of the case has not as yet been had.

In 1934 the City of LaSalle, (Ill.), having a 1930 population of 13,149, by vote of electorate took action to construct and operate a municipally owned electric generating plant and distributing system. The plant and system contemplated by the 1934 action have not as yet been constructed. In October, 1937, the electorate of the City of LaSalle again voted on substantially the same question; and the counted ballots indicated that the proposals had carried by a few votes. A recount of the ballots cast in the October election, conducted by the Court, did not change the apparent result; and an appeal has been taken to the Supreme Court (Ill.) for decision on several disputed ballots.

In 1935 the City of Jacksonville, (Ill.), having a 1930 population of 17,747, by vote of electorate took action to construct and operate a municipally owned electric generating plant and distributing system. The Company instituted a suit for an injunction in the Illinois Courts and the Supreme Court of Illinois affirmed a decision of the lower court denying such injunction. The Company also instituted suit for an injunction along the lines of the action brought in the case of the City of Centralia, except that action against the Administrator of Public Works was brought in the Supreme Court of the District of Columbia. This action has been disposed of by the United States Supreme Court in a recent decision and the City of Jacksonville is reported to be preparing to advertise for bids for the construction of the proposed municipally owned plant.

During the time that has intervened since these proposals for municipally owned plants were first voted on by the respective electorates, these communities have shared in the benefits of the substantial reductions made by the Company in the prices for electric utility services throughout all areas served by it; the cost of constructing facilities has advanced appreciably by reason of higher material prices and wage levels; and the popular incentive to pursue these early proposals to consummation is not believed to be as great as when they were initiated.

Public Utility Holding Company Act of 1935

Prior to the date on which the Public Utility Holding Company Act of 1935 became effective, the Company made application to the Securities and Exchange Commission for exemption from the requirements of registration as a holding company under such act. This application is still pending. Because of the ownership by Illinois Traction Company, a subsidiary of North American Light & Power Company, both registered holding companies, of 10% or more of the voting stock of the Company, Illinois Iowa Power Company and its subsidiaries are "subsidiaries" of a registered holding company.

By order of the Board of Directors.

J. D. MORTIMER,
President

St. Louis, Missouri
March 16, 1938

**To the President and Board of Directors
of Illinois Iowa Power Company:**

We have made an examination of the consolidated balance sheet of Illinois Iowa Power Company (formerly named Illinois Power and Light Corporation) and utility subsidiaries as at December 31, 1937, and of the related statements of income and surplus for the year 1937. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

The companies follow the retirement reserve method under which appropriations to reserves are made in amounts varying from year to year in order to provide as nearly as is practicable for losses on retirement of property. The appropriations charged to income are not represented by the companies to be a measure of depreciation due to wear and tear, or obsolescence which may have accrued during the period, but represent amounts provided as stated above.

The financial statements of Illinois Terminal Railroad Company and Central Terminal Company have not been consolidated with those of Illinois Iowa Power Company as at December 31, 1937, but are attached hereto. At December 31, 1936, the financial statements of these companies or their predecessor companies were consolidated with those of the parent and its other subsidiaries.

In our opinion, based upon such examination and the foregoing explanations, the accompanying consolidated balance sheet and related statements of income and surplus, as supplemented by the notes appended thereto, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review (except as to the basis of consolidation referred to above), the position of Illinois Iowa Power Company and utility subsidiaries, consolidated, as at December 31, 1937, and the results of the operations for the year.

PRICE, WATERHOUSE & CO.

ILLINOIS IOWA POWER COMPANY AND UTILITY SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

	Year Ended December 31, 1937	Year Ended December 31, 1936
Operating Revenues (Note A):		
Electric	$18,551,558.32	$17,292,965.42
Heating	536,240.96	554,156.24
Gas (including manufactured, mixed and natural gas)	4,586,885.22	4,428,633.14
Street Railway and Bus	1,015,724.11	1,617,072.98
Water	108,134.42	110,451.30
Ice and Miscellaneous	116,539.31	152,196.86
Bridge Rental received from Illinois Terminal Railroad Company	225,000.00	300,000.00
Total Operating Revenues	$25,140,082.34	$24,455,475.94
Operating Expenses, Maintenance, Etc.:		
Operating Expenses	$10,230,730.58	$10,453,494.53
Maintenance	1,710,738.23	1,630,220.96
Taxes, other than Income Taxes	2,069,171.08	1,789,988.68
Provision for Income Taxes	414,700.00	411,535.00
Provision for Surtax on Undistributed Income of Subsidiaries (Note B)	2,000.00	9,565.00
Appropriation to Depreciation and Retirement Reserve	2,276,311.16	2,141,807.98
Total Operating Charges	$16,703,651.05	$16,436,612.15
Net Operating Revenues	$ 8,436,431.29	$ 8,018,863.79
Non-Operating Revenues:		
Income from Subsidiaries not Consolidated (Note C):		
Dividends received from predecessors of Illinois Terminal Railroad Company		$ 57,440.00
Interest received from Illinois Terminal Railroad Company and its predecessor companies	$ 422,871.46	433,721.69
Interest received from Central Terminal Company	92,637.91	24,913.63
Dividends on Common Stock of Super-Power Company of Illinois		108,255.60
Other Non-Operating Revenues	36,402.02	47,629.05
Total Non-Operating Revenues	$ 551,911.39	$ 671,959.97
Gross Income	$ 8,988,342.68	$ 8,690,823.76
Deductions:		
Interest Charges:		
Interest on Funded Debt	$ 5,928,142.95	$ 6,109,362.55
Amortization of Bond Discount and Expense (Note D)	163,802.87	162,783.15
Other Interest Charges	25,329.86	23,935.64
Total Interest Charges	$ 6,117,275.68	$ 6,296,081.34
Less: Interest during Construction	25,808.03	7,547.48
Net Interest Charges	$ 6,091,467.65	$ 6,288,533.86
Dividends on Preferred Stocks of Subsidiaries	420,060.53	419,912.46
Total Deductions	$ 6,511,528.18	$ 6,708,446.32
Net Income (of which, for the year ended December 31, 1937, $872,871.47 is applicable to the four months prior to May 1, 1937 and $1,603,943.03 is applicable to the eight months ended December 31, 1937)	$ 2,476,814.50	$ 1,982,377.44

NOTES:

(A) Operating revenues include sales to subsidiaries not consolidated of $337,463.45 in 1936, and $353,334.89 in 1937.

(B) See Note (H) to the Consolidated Balance Sheet.

(C) The financial statements of Illinois Terminal Railroad Company and its predecessor companies and Central Terminal Company are attached hereto.

(D) See Note (D) to the Consolidated Balance Sheet.

(E) The accounts for the year ended December 31, 1936, have been restated on the basis of excluding from the consolidated income statement the revenues, expenses and other details of operations of Illinois Terminal Railroad Company and its predecessor companies and Central Terminal Company.

ILLINOIS IOWA POWER COMPANY AND UTILITY SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNED SURPLUS

	Earned Surplus prior to May 1, 1937	Earned Surplus since May 1, 1937
Balance, December 31, 1936	$ 3,040,170.15*	
Add:		
Net income from Income Statement	872,871.47	$ 1,603,943.03
Adjustments arising from restatements of investments in railroad subsidiaries not consolidated	175,404.57	132,003.75#
Other credits to surplus		45,753.61
	$ 1,991,894.11*	$ 1,517,692.89
Deduct:		
Net premium on bonds of the Company and utility subsidiaries reacquired and retired or held in treasury	$ 160,625.00	$ 1,206.25**
Loss on sale of real estate		219.25
	$ 160,625.00	$ 987.00**
	$ 2,152,519.11*	$ 1,518,679.89
Deficit eliminated by charge to Paid-In Surplus on May 1, 1937	2,152,519.11	
Balance, December 31, 1937	$.....	$ 1,518,679.89

*Deficit. **Credit. #Debit.

CONSOLIDATED STATEMENT OF PAID-IN SURPLUS

	Reserved for Dividend Arrears Certificates	Reserved for Conversion of Dividend Arrears Certificates	Unappropriated
Surplus created by reduction of capital incident to recapitalization made effective by Charter Amendment filed on May 1, 1937			$30,869,700.00
Deduct:			
Appropriation to Special Property and Investment Reserve			$15,000,000.00
Elimination of Deficit as at April 30, 1937			2,152,519.11
Provision for the payment of fifty cents per share to the holders of the Company's former 6% Cumulative Preferred Stock			20,000.00
Other expenses in connection with the recapitalization made effective May 1, 1937			122,683.19
			$17,295,202.30
Reservations of Surplus:			
Reserved for Dividend Arrears Certificates	$11,604,000.00		$11,604,000.00*
Reserved for Conversion of Dividend Arrears Certificates		$ 483,500.00	483,500.00*
	$11,604,000.00	$ 483,500.00	$12,087,500.00*
Transferred to Common Stock Capital Account on conversion of 305 Dividend Arrears Certificates into 305 shares of Common Stock	$ 7,320.00	$ 305.00	
Balance, December 31, 1937	$11,596,680.00	$ 483,195.00	$ 1,486,997.70

*Deduction.

ILLINOIS IOWA POWER COMPANY AND UTILITY SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (NOTE A)
DECEMBER 31, 1937

ASSETS

Property and Plant (Note B)			$123,504,132.18
Cash on Deposit with Trustees			3,261,869.41
Investments in Wholly-owned Subsidiaries not Consolidated (Note C):			
Illinois Terminal Railroad Company		$45,702,028.30	
Central Terminal Company		5,648,063.80	
Subsidiaries in process of liquidation		10,951.19	51,361,043.29
Current and Working Assets:			
Cash in Banks and on Hand		$ 4,139,901.68	
Cash on Deposit for Payment of Dividends on Preferred Stocks of Subsidiaries		105,015.13	
Accounts and Notes Receivable (including installment accounts)	$ 2,972,902.04		
Less-Reserve	513,411.63	2,459,490.41	
Due from Subsidiaries not Consolidated (including $238,569.01 of accrued interest due January 1, 1938)		302,807.10	
Materials and Supplies (at cost or less):			
Merchandise	$ 309,434.70		
Construction and Maintenance, and Fuel	1,343,942.73	1,653,377.43	8,660,591.75
Balances in Banks Closed or under Restriction		$ 55,711.00	
Less-Reserve		55,711.00	
Deferred Charges:			
Unamortized Bond Discount and Expense (Note D)		$ 3,348,530.41	
Prepaid Insurance and Expenses		59,446.28	
Other Deferred Charges		26,177.44	3,434,154.13
			$190,221,790.76

NOTES:

(A) The consolidated balance sheet includes the accounts of utility subsidiaries, which are wholly owned, except one company in which 84.8% of the voting stock is owned. Intercompany items in the accounts of the consolidated companies are eliminated. The consolidated balance sheet includes as investments Illinois Terminal Railroad Company, Central Terminal Company, and two subsidiary companies in process of liquidation, all of which are wholly owned. The financial statements of Illinois Terminal Railroad Company (and its predecessor companies) and Central Terminal Company are attached hereto; the accounts of the two companies in process of liquidation are not material.

At December 31, 1936, the consolidated balance sheet included the accounts of all the companies referred to above.

On May 1, 1937, there became effective a plan of recapitalization of Illinois Iowa Power Company as set forth in the letter to the stockholders dated March 29, 1937. Under that plan $30,869,700 arising from the reduction of the capital of this company was credited to a paid-in surplus account. Changes in such surplus during the year 1937 are set forth in an attached statement.

In October, 1937, the railroad subsidiaries of Illinois Iowa Power Company were reorganized under the name of Illinois Terminal Railroad Company. Illinois Iowa Power Company received all of the capital stock and certain bonds of the new company in exchange for its former investments in and advances to such railroad subsidiaries and in consideration for the transfer of McKinley Bridge, formerly owned by the Company. The investment in the new company was at that time reduced to the amount of underlying net assets of the new company.

(B) Property and Plant is stated at the aggregate amount shown on the books of the Company and utility subsidiaries consolidated. Properties acquired by the Company upon organization in May, 1923 were recorded in the aggregate amount of $54,220,533 shown by the books of predecessor companies. Retirement reserves taken over from predecessor companies or created upon organization aggregated $5,031,143. The property accounts of subsidiaries consolidated and changes since organization in the property account of the Company comprise amounts recorded for properties acquired as entireties at various dates (which amounts were determined on the basis of cash paid or investments surrendered, par or assigned value of securities issued, liabilities assumed, and surplus of $109,882 and retirement reserves of $1,348,436 taken over) plus other additions at cost, less retirements. The amount at which the property account is stated does not purport to represent present-day replacement or realizable value and includes intangibles arising principally from capitalization of properties acquired upon organization and subsequently as entireties. The aggregate amount of such intangibles is not known.

(Notes continued on page 14)

ILLINOIS IOWA POWER COMPANY AND UTILITY SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (NOTE A)
DECEMBER 31, 1937

LIABILITIES

Capital Stock of Illinois Iowa Power Company:		
Serial Preferred Stock, $50 par value per share—		
Authorized—1,000,000 shares		
Outstanding—483,500 shares of 5% Cumulative Convertible Preferred Stock (Note E)	$24,175,000.00	
Common Stock, without par value, stated at $25 per share—		
Authorized—5,000,000 shares (Note F)		
Outstanding—783,805 shares	19,595,125.00	$43,770,125.00
Preferred Stocks of Subsidiaries (after eliminating treasury and intercompany holdings of $629,950—Note G)		6,520,050.00
Funded Debt of Illinois Iowa Power Company (after eliminating treasury holdings of $903,100—Note G):		
Illinois Power and Light Corporation:		
First and Refunding Mortgage Bonds—		
Series A, 6%, due 1953	$35,749,400.00	
Series B, 5½%, due 1954	15,977,000.00	
Series C, 5%, due 1956	39,946,000.00	
Underlying Mortgage Bonds	2,297,500.00	
Illinois Power and Light Corporation:		
Sinking Fund Debentures, 5½%, due 1957	6,480,500.00	100,450,400.00
Funded Debt of Subsidiaries (after eliminating intercompany holdings of $1,750,000—Note G)		7,976,500.00
Current and Accrued Liabilities:		
Accounts Payable	$ 765,716.99	
Subsidiary Preferred Stock Dividends Payable	105,015.13	
Accrued Taxes (Note H)	2,470,212.23	
Accrued Interest	1,115,656.42	
Consumers' Deposits	581,770.47	
Sundry Current and Deferred Liabilities	81,862.98	5,120,234.22
Contributions by Consumers for Construction of Property		335,607.51
Reserves:		
Depreciation and Retirement Reserve	$ 5,575,863.43	
Special Property and Investment Reserve (Note I)	5,072,277.64	
Casualty Reserve	315,180.37	10,963,321.44
Paid-In Surplus, as per accompanying statement:		
Reserved for Dividend Arrears Certificates (Note J)	$11,596,680.00	
Reserved for Conversion of Dividend Arrears Certificates (Note J)	483,195.00	
Unappropriated	1,486,997.70	13,566,872.70
Earned Surplus since May 1, 1937, as per accompanying statement (Note K).		1,518,679.89
		$190,221,790.76

Contingent Liabilities—Note L.

ILLINOIS IOWA POWER COMPANY AND UTILITY SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET—Continued

(C) The investments in Illinois Terminal Railroad Company and Central Terminal Company, all of the outstanding capital stocks of which are owned by the Company, are stated at the amounts of underlying net assets as of October 18, 1937, and April 30, 1937, respectively. The investments in subsidiaries in process of liquidation are stated at the estimated amount to be realized upon liquidation. Investments include $11,347,000 principal amount of bonds, $710,362 principal amount of notes and $25,022,000 par value of capital stocks, which are pledged under the First and Refunding Mortgage of the Company.

(D) Discount and expense relating to certain outstanding bonds was charged to contributed surplus in 1929. Amortization of such bond discount and expense applicable to bonds outstanding during the years 1936 and 1937 would have been approximately $96,000 and $82,000, respectively.

(E) On December 31, 1937, accumulated dividends on 5% Cumulative Convertible Preferred Stock amounted to $1 ⅜ per share aggregating $805,833.33. Each share of Preferred Stock is redeemable at any time at option of Company at $52.50 and accrued dividends and is convertible at any time prior to redemption at the option of the holder into 2 shares of Common Stock without par value.

(F) There are outstanding 300,000 Warrants each entitling the holder to purchase, at any time after May 1, 1938 and on or before May 1, 1948, one share of Common Stock for $30 in cash. Of the Common Stock authorized but not issued, 1,750,195 shares are reserved—300,000 shares for the exercise of the Warrants, 967,000 shares for the conversion of 5% Cumulative Convertible Preferred Stock, and 483,195 shares for the conversion of Dividend Arrears Certificates.

(G) Treasury and intercompany holdings eliminated in consolidation include (a) $1,773,600 principal amount of bonds, $3,300,000 principal amount of accounts receivable, and $6,700,000 stated value of Common Stock pledged with the trustee under the indenture securing the first and refunding mortgage bonds of the Company, and (b) $150,000 principal amount of notes receivable, $293,250 par value of Preferred Stock, and $2,250,000 par value of Common Stock pledged with the trustee under the indenture securing first mortgage bonds of a subsidiary consolidated.

(H) Federal Income tax returns for the years 1934 and 1935 have been examined by the Treasury Department and no additional assessments are indicated. The returns for the years 1936 and 1937 are subject to final determination by the Treasury Department. In the opinion of the officers, Illinois Iowa Power Company is relieved of liability for surtax by restrictions on the payment of dividends in its mortgage and debenture indentures. However, the amount provided at December 31, 1937 appears to be sufficient.

(I) Of the $15,000,000 special property and investment reserve provided from paid-in surplus on May 1, 1937, $5,873,545.41 was applied to restate investments in subsidiary companies at the amounts of underlying net assets on April 30, 1937, which restatement eliminated a consolidating entry of the same amount charged as premium to the property accounts at December 31, 1936; $1,470,126.09 was applied to write down the investment in McKinley Bridge to the amount received therefor from Illinois Terminal Railroad Company; and $2,584,050.86 was applied to write down the investment in railroad subsidiaries upon reorganization of such subsidiaries in October, 1937. Of such latter amount, $1,772,742.09 reflected the write-down of properties transferred by St. Louis Electric Terminal Railway Company to Illinois Terminal Railroad Company and $811,308.77 reflected the adjustment of accrued depreciation (net) for prior years.

(J) Holders of Dividend Arrears Certificates are entitled to receive, from time to time when and as installments are declared payable by the Board of Directors, the full amount of the Dividend Arrears Certificates outstanding before any dividends shall be paid or other distribution made on the Common Stock. Such certificates are convertible at any time prior to payment in full or December 31, 1940, whichever is earlier, at the option of the holder, into Common Stock at the rate of one share for each $24 of unpaid balance of such certificates.

(K) Earned Surplus as shown in the Consolidated Balance Sheet is not computed in the same manner as provided in the Company's mortgage and debenture indentures, which contain provisions prohibiting the payment of dividends except out of earned surplus accumulated since 1922, as defined therein.

(L) CONTINGENT LIABILITIES:

The Company, under authority of Illinois Commerce Commission, has guaranteed $2,000,000 principal amount of 5% debentures of North American Light & Power Company maturing January 2, 1948, issued by the latter company to cover that portion, viz., $2,000,000 of cost of acquiring securities of a predecessor of a subsidiary of the Company in excess of valuation thereof allowed by Illinois Commerce Commission.

In May, 1937, suit was instituted by certain holders of the former $6 Cumulative Preferred Stock and 6% Cumulative Preferred Stock of Illinois Iowa Power Company to enjoin the consummation of the Plan of Recapitalization of the Company effected on May 1, 1937, and the payment of dividends or any moneys on the new 5% Cumulative Convertible Preferred Stock and Common Stock into which the former preferred stocks had been converted under said Plan, and for other relief incident thereto. The case, entitled Morehouse et al. vs. Illinois Power and Light Corporation, is now pending in the Circuit Court at Champaign, Illinois.

The Company has agreed to purchase for cash, at the principal amount thereof and accrued interest, 4% mortgage bonds of Illinois Terminal Railroad Company, a subsidiary not consolidated, equal to the principal amount of underlying bonds of that company held by the public which are purchased, redeemed or paid at maturity by Illinois Terminal Railroad Company. Of such bonds, there were held by the public on December 31, 1937, $2,844,000 principal amount which will mature on December 1, 1939, and $809,000 principal amount which will mature on November 1, 1940.

The Company and a subsidiary consolidated have entered into commitments aggregating $6,000,000 on account of contracts for the purchase of machinery, apparatus and supplies required for the construction of and additions to electric generating plants and substations associated therewith.

ILLINOIS TERMINAL RAILROAD COMPANY

INCOME STATEMENT

(Combined Results of Operations of Illinois Terminal Railroad Company and its Predecessor Companies—See Notes Below)

	Year Ended December 31, 1937	Year Ended December 31, 1936
Railway Operating Revenues:		
Railroad	$ 5,887,822.46	$ 5,715,742.50
Bridge	308,485.41	282,884.09
Total Railway Operating Revenues	$ 6,196,307.87	$ 5,998,626.59
Railway Operating Expenses:		
Operating Expenses	$ 2,530,070.98	$ 2,399,395.21
Maintenance	1,317,659.04	1,201,513.40
Depreciation—Equipment	223,486.62	222,657.14
Total Railway Operating Expenses	$ 4,071,216.64	$ 3,823,565.75
Net Revenue from Railway Operations	$ 2,125,091.23	$ 2,175,060.84
Railway Tax Accruals:		
Taxes, other than Income Taxes	$ 422,400.00	$ 469,271.82
Provision for Income Taxes	90,065.49	102,315.00
Provision for Surtax on Undistributed Income	77,000.00	64,435.00
Total Railway Tax Accruals	$ 589,465.49	$ 636,021.82
Railway Operating Income	$ 1,535,625.74	$ 1,539,039.02
Hire of Equipment—Debit Balance	$ 352,188.52	$ 283,587.72
Joint Facility Rents—Credit Balance	45,128.14	44,875.88
Net Rents	$ 307,060.38	$ 238,711.84
Net Railway Operating Income	$ 1,228,565.36	$ 1,300,327.18
Other Income:		
Miscellaneous Rent Income	$ 24,101.49	$ 22,924.67
Income from Funded Securities of Affiliated Companies	150.00	30,548.31
Miscellaneous Income	3,458.64	2,551.65
Total Other Income	$ 27,710.13	$ 56,024.63
Gross Income	$ 1,256,275.49	$ 1,356,351.81
Deduct:		
Rent for Leased Roads	$ 98,682.20	$ 98,423.10
Rent paid to Illinois Iowa Power Company for McKinley Bridge	225,000.00	300,000.00
Interest on Funded Debt—		
To Illinois Iowa Power Company (bonds and other indebtedness)	422,871.46	433,721.69
To Others	196,111.70	231,158.02
Amortization of Discount on Funded Debt (See Balance Sheet Note C)	1,077.43	
Miscellaneous Deductions	15,826.58	18,389.82
Total Deductions	$ 959,569.37	$ 1,081,692.63
Net Income (of which, for the year ended December 31, 1937, $243,472.59 is applicable to predecessor companies and $53,233.53 is applicable to the new company)	$ 296,706.12	$ 274,659.18

NOTES:

(A) The properties now operated by Illinois Terminal Railroad Company were directly owned or leased by a predecessor company in recent years and operated as a unified system. Intercompany rentals between the predecessor companies have been eliminated in combining the results of operations.

(B) The accounts for the year 1936 have been reclassified on the basis of the classification of accounts prescribed by Interstate Commerce Commission.

ILLINOIS TERMINAL RAILROAD COMPANY

BALANCE SHEET

DECEMBER 31, 1937

ASSETS

Investments:		
Investment in Road and Equipment (Note A)	$52,164,355.95	
Improvements on Leased Railway Property (Note A)	69,470.42	
Deposits in Lieu of Mortgaged Property Sold	2,500.00	
Miscellaneous Physical Property (Note A)	774,257.38	
Advances to Railroad Credit Corporation	53,544.05	$53,064,127.80
Current Assets:		
Cash	$ 290,059.29	
Special Deposits	7,153.83	
Traffic and Car Service Balances Receivable	112.81	
Net Balance Receivable from Agents and Conductors	79,510.74	
Miscellaneous Accounts Receivable	88,633.54	
Materials and Supplies	455,401.38	
Other Current Assets	142,881.46	1,063,753.05
Deferred Assets:		
Working Fund Advances	$ 1,378.97	
Other Deferred Assets	1,002.84	2,381.81
Unadjusted Debits:		
Insurance Premiums paid in Advance	$ 12,101.87	
Discount on Funded Debt (Note C)	31,245.58	
Other Unadjusted Debits	21,471.32	64,818.77
		$54,195,081.43

NOTES:

(A) Investment in road and equipment and other properties acquired by Illinois Terminal Railroad Company upon organization in October, 1937, were recorded at the aggregate amount of $40,227,594.18 shown by the books of predecessor companies. The accounts, Accrued Depreciation—Equipment of $2,715,837.20 and Paid-In-Surplus of $9,355,028.30, were taken over from predecessor companies or created upon organization. Changes in investment in road and equipment and other property accounts since organization comprise the amount of $12,400,000 recorded for properties acquired as entireties immediately following organization of the Company (recorded at the par value of securities issued in payment therefor) plus the net of subsequent additions, betterments and retirements. The amounts at which investment in road and equipment and other property accounts are stated do not purport to represent present-day replacement or realizable values and include intangibles the aggregate amount of which is not known.

ILLINOIS TERMINAL RAILROAD COMPANY

BALANCE SHEET

DECEMBER 31, 1937

LIABILITIES

Capital Stock, $100 par value:		
Authorized-250,000 shares		
Outstanding-250,000 shares		$25,000,000.00
Grants in Aid of Construction		123,125.99
Funded Debt Unmatured (After eliminating treasury holdings of $3,722,000 —Note B):		
First and Refunding Mortage Bonds, 4% Series due 1967 (owned by Illinois Iowa Power Company)	$11,347,000.00	
Bloomington, Decatur and Champaign Railroad, First and Refunding Mortgage Five Per Cent Bonds, due November 1, 1940	809,000.00	
St. Louis, Springfield and Peoria Railroad, First and Refunding Mortgage Five Per Cent Bonds, due December 1, 1939	2,844,000.00	15,000,000.00
Current Liabilities:		
Traffic and Car Service Balances Payable	$ 11,152.69	
Audited Accounts and Wages Payable	388,986.91	
Miscellaneous Accounts Payable	31,434.86	
Unmatured Interest Accrued (including $226,940.00 payable January 1, 1938)	245,531.67	
Other Current Liabilities	264,874.90	941,981.03
Other Deferred Liabilities		28,491.25
Unadjusted Credits:		
Tax Liability (Note D)	$ 782,159.79	
Accrued Depreciation—Equipment	2,710,518.65	
Other Unadjusted Credits	276,693.49	3,769,371.93
Surplus, as per accompanying statement:		
Paid-In Surplus	$ 9,355,028.30	
Profit and Loss—Debit Balance	22,917.07	9,332,111.23
		$54,195,081.43

(B) Treasury bonds are pledged with the Trustee under the indenture securing the First and Refunding Mortgage Bonds of Illinois Terminal Railroad Company.

(C) Discount and expense relating to bonds assumed by Illinois Terminal Railroad Company upon organization in October, 1937, was charged by a predecessor company to contributed surplus in 1929. Amortization of such bond discount and expense applicable to bonds outstanding during the years 1936 and 1937 would have been approximately $5,000 per annum.

(D) The liability of the Company and its predecessor companies for Federal income taxes for 1934 and subsequent years has not been finally determined but, in the opinion of the Officers, the accrual therefor is regarded as adequate to cover the probable liability.

ILLINOIS TERMINAL RAILROAD COMPANY
STATEMENT OF PROFIT AND LOSS

(Including the combined statement of Profit and Loss of its predecessor companies for the period prior to consolidation)

	Predecessor Companies	New Company
Credit Balance, December 31, 1936	$ 2,571,073.20	
Add:		
Credit balance transferred from Income Statement	243,472.59	$ 53,233.53
Discount on funded debt reacquired and held in treasury	4,275.00	1,940.00
Miscellaneous credits	833.23	175.43
Credit arising upon substantial liquidation of St. Louis Electric Terminal Railway Company, surrender of capital stock and cancellation of indebtedness held by Illinois Iowa Power Company	2,591,339.28	
	$ 5,410,993.30	$ 55,348.96
Deduct:		
Write-down of property of St. Louis Electric Terminal Railway Company upon transfer to Illinois Terminal Railroad Company	$ 1,772,742.09	
Debits from retired road	221,613.25	$ 73,293.98
Miscellaneous debits	27.22	4,972.05
Credit balance at date of consolidation eliminated by transfer to paid-in surplus of the new company	3,416,610.74	
	$ 5,410,993.30	$ 78,266.03
Debit balance, December 31, 1937	$	$ 22,917.07

STATEMENT OF PAID-IN SURPLUS

Paid-in surplus created upon consolidation as of October 18, 1937:		
Surplus created by net reduction of combined capital stock, funded debt, and indebtedness of predecessor companies to Illinois Iowa Power Company		$ 6,749,726.33
Credit balance in combined Profit and Loss account of predecessor companies		3,416,610.74
		$10,166,337.07
Deduct:		
Adjustment of accrued depreciation—equipment, applicable to the period prior to January 1, 1935	$ 1,056,849.22	
Less—Elimination of accrued depreciation—road	245,540.45	811,308.77
Credit balance, December 31, 1937		$ 9,355,028.30

St. Louis, Missouri,
March 16, 1938

**To the President and Board of Directors of
Illinois Terminal Railroad Company:**

We have made an examination of the balance sheet of Illinois Terminal Railroad Company as at December 31, 1937, and of the related statements of income and surplus of the company and its predecessor companies for the year 1937. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

The company was organized on October 18, 1937, through the consolidation of certain railroad companies which were wholly-owned subsidiaries of Illinois Iowa Power Company. The new company then acquired the properties of St. Louis Electric Terminal Railway Company, another wholly-owned subsidiary of Illinois Iowa Power Company, and acquired McKinley Bridge from Illinois Iowa Power Company. The statements of income and surplus attached hereto include the combined results of operations of the new company and its predecessor companies, for the entire year.

The company and its predecessor companies, which maintained their accounts in accordance with regulations of the Interstate Commerce Commission, made provision for depreciation of equipment on a straight line basis, but made no provision for depreciation of road, buildings, and other properties.

In our opinion, based upon such examination and the foregoing explanations, the accompanying balance sheet and related statements of income and surplus, as supplemented by the notes thereon, fairly present, in accordance with the regulations and methods of accounting prescribed or authorized by the Interstate Commerce Commission, the position of Illinois Terminal Railroad Company as at December 31, 1937, and the combined results of the operations of Illinois Terminal Railroad Company and its predecessor companies for the year.

PRICE, WATERHOUSE & CO.

CENTRAL TERMINAL COMPANY

INCOME STATEMENT

	Year Ended December 31, 1937	1936
Operating Revenues:		
Rental received from Illinois Terminal Railroad Company and its Predecessors for Terminal and Office Facilities	$ 74,250.68	$ 77,456.10
Other Rentals	178,920.98	153,339.17
Revenue from Warehousing Operations	145,402.51	103,810.83
Miscellaneous	16,351.61	24,676.82
Total Operating Revenues	$ 414,925.78	$ 359,282.92
Operating Expenses, Maintenance, etc:		
Operating Expenses (Note A)	$ 113,533.16	$ 92,191.30
Maintenance	18,356.97	14,045.83
Taxes, other than Income Taxes	51,553.47	52,516.95
Provision for Depreciation	82,500.00	82,500.00
Total Operating Charges	$ 265,943.60	$ 241,254.08
Net Operating Revenues	$ 148,982.18	$ 118,028.84
Other Income	505.73	478.84
Gross Income	$ 149,487.91	$ 118,507.68
Interest Charges:		
Interest on Funded Debt	$ 56,850.00	$ 91,835.81
Interest on Note Payable to Illinois Iowa Power Company (Note B)	92,637.91	24,913.63
Amortization of Bond Discount and Expense		860.49
Other Interest Charges		897.75
Total Interest Charges	$ 149,487.91	$ 118,507.68
Net Income	$.....	$.....

NOTES:

(A) Operating Expenses for 1937 include $15,000 expended in settlement of a claim for services rendered.

(B) According to the terms of the note, interest is payable at 6% per annum, if earned, but it shall not in any year exceed the income of the Company available for the payment of such interest. For the years 1936 and 1937, such income was considerably less than 6%.

STATEMENT OF DEFICIT

Deficit, December 31, 1936	$ 1,818,481.31
Net Income for the year 1937	.....
Deficit eliminated by cancellation of indebtedness by Illinois Iowa Power Company	1,818,481.31*
Deficit, December 31, 1937	$.....

*Provision for this deficit was made by the parent company prior to December 31, 1936.

St. Louis, Missouri,
March 16, 1938.

To the President and Board of Directors
of Central Terminal Company:

We have made an examination of the balance sheet of Central Terminal Company as at December 31, 1937, and of the related statements of income and deficit for the year 1937. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

The Company's provision for depreciation is based on the annual rate of 2% applied to the value of depreciable assets as determined by the Treasury Department for income tax purposes.

In our opinion, based upon such examination and the foregoing explanation, the accompanying balance sheet and related statements of income and deficit, as supplemented by the notes thereon, fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, the position of Central Terminal Company as at December 31, 1937, and the results of the operations for the year.

PRICE, WATERHOUSE & CO.

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CENTRAL TERMINAL COMPANY

BALANCE SHEET

DECEMBER 31, 1937

ASSETS

Property and Plant (Note A)		$ 6,887,267.22
Mortgage Notes Receivable		6,840.00
Special Deposit		3,000.00
Current Assets:		
Cash in Banks and on Hand	$ 11,528.97	
Accounts Receivable (Trade)	20,391.71	
Due from Affiliated Companies	18,791.52	50,712.20
Prepaid Insurance and Expenses		2,968.85
		$ 6,950,788.27

LIABILITIES

Common Stock, without Par Value:		
Authorized—10,000 shares		
Outstanding—10,000 shares		$ 1,000,000.00
Mortgage Note, 6%, due November 27, 1940		925,000.00
Due to Illinois Iowa Power Company, 6% Income Note, due on demand		4,648,063.80
Current and Accrued Liabilities:		
Accounts Payable	$ 3,020.19	
Accrued Taxes	2,128.58	
Accrued Interest	11,629.01	
Sundry Current and Deferred Liabilities	683.00	17,460.78
Reserves:		
Depreciation Reserve	$ 353,715.45	
Casualty Reserve	6,548.24	360,263.69
Deficit, as per accompanying statement		.....
		$ 6,950,788.27

NOTE:

(A) Property and plant comprises terminal and warehouse facilities, buildings and real estate held for development, stated at cost. The aggregate amount of intangibles included therein is not known.